COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 10, 2003

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **REVIEW OF TEEN'S HAPPY HOME, INCORPORATED – A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on Teen's Happy Home, Incorporated (Teen's or Agency) fiscal operations for the period January 1, 2002 through December 31, 2002. Teen's is licensed to operate both a Foster Family Agency (FFA) and a Group Home (GH). For our review period, Teen's FFA office served 41 children placed in 31 certified homes and one certified group home with six children placed in the home.

During our review period, the Agency received a total of $1,087,104 in foster care funds from the Department of Children and Family Services (DCFS). Of this amount, $286,722 was for the GH program and $800,382 was for the FFA program. The Agency paid $338,393 of the FFA funds directly to the foster parents. Teen's FFA office and group home are both located in the Second Supervisorial District.

Scope

The purpose of our review was to ensure that Teen's has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA and GH foster care funds.

Summary of Findings

We identified $23,624 in expenditures that did not have adequate documentation (original receipts, etc.) to support the expenditures and $2,620 that we believe are ineligible because they are not program related. In addition, we noted that the Agency has substantial amounts of liabilities owed to the California Department of Social Services (CDSS) and Internal Revenue Service (IRS) that could jeopardize Teen's financial viability. DCFS should consider whether to continue contracting with this Agency due to the nature of these financial issues. If DCFS decides to continue contracting with this Agency, it should implement an active, timely, and detailed monitoring program. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the unsupported/ inadequately supported and ineligible expenditures and, if appropriate, collect all disallowed amounts. In addition, DCFS must ensure that Teen's management takes the appropriate corrective actions to address the recommendations in this report. DCFS should also monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with Teen's management on November 10, 2003. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Teen's management and staff for their cooperation during our review.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Department of Children and Family Services
David Sanders, Ph.D., Director
Angela Carter, Deputy Director, Bureau of Administration
Genevra Gilden, Chief, Quality Assurance Division
Teen's Happy Home, Incorporated
Beautina Robinson, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

TEEN'S HAPPY HOME, INCORPORATED
REVIEW OF FOSTER FAMILY AGENCY AND GROUP HOME CONTRACTS

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Teen's Happy Home, Incorporated (Teen's or Agency) to recruit, certify, train and support foster family homes and to provide treatment and support services for DCFS children placed in these homes. Teen's is licensed to operate both a Foster Family Agency (FFA) and a Group Home (GH). During our review period of January 1, 2002 through December 31, 2002, Teen's FFA office served 41 children placed in 31 certified homes and one certified group home with a resident capacity of six children. Teen's FFA office and group home are both located in the Second Supervisorial District.

Under the provisions of the contracts, the County pays Teen's a monthly rate for each child, based on the FFA Annual Treatment Rate and the GH Rate Classification Levels determined by the California Department of Social Services (CDSS). For our review period, Teen's received a monthly rate between $1,589 and $1,865 per foster child served by the FFA and $3,458 per child placed in the GH. The Agency received a total of $1,087,104 in foster care funds from DCFS. Of this amount, $800,382 was for the FFA program and $286,722 was for the GH program.

In addition, CDSS has also established minimum amounts the Agency was required to pay certified foster parents. During our review period, the Agency paid a monthly rate between $624 and $790 per child for a total of $338,393 to the foster parents.

APPLICABLE REGULATIONS AND GUIDELINES

Teen's is required to operate its FFA and GH in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- FFA and GH Contracts, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

Our review disclosed a total of $26,244 in unsupported/inadequately supported and ineligible expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

Per the A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit.

Our review identified $23,624 in expenditures that were not adequately supported by the Agency. The Agency's Executive Director informed us that, prior to our review, a sewer line problem resulted in the flooding of rooms and closets in the FFA office. Storage boxes containing receipts and other supporting documents were saturated with waste water. Some of these boxes were thrown away due to sanitation and health issues. As a result, the Agency informed us that they would need to contact their vendors to obtain some of the supporting documents for our review. We allowed the Agency adequate time to obtain copies of supporting documents for their expenditures. However, the Agency was unable to provide us with adequate documentation for some of their expenditures. Our review identified the following:

- $13,159 paid to the former group home bookkeeper. The Agency only provided cancelled checks to support these payments. The Agency was unable to explain the nature of these expenditures. As a result, we were unable to determine whether these expenditures were business related. We also noted that the bookkeeper was an authorized signer on the group home checks and only one signature was required. On November 18, 2002, Teen's Board of Directors changed their check signing policy to require two signatures on all checks from three authorized check signers. The Agency's Board minutes indicated that only the Executive Director, the Treasurer and the Board President are now authorized to sign checks.

- $6,669 paid to the group home facility manager. The Agency only had cancelled checks to support these payments. We were unable to determine whether these payments were business related.

- $3,796 in expenditures involving automobile repairs and telephone charges. The Agency did not provide itemized receipts or invoices for our review.

Ineligible Expenditures

We identified $2,620 in expenditures which are not eligible under federal and State guidelines or the County's contract. Listed below are details of these expenditures.

Fines, Penalties and Other Ineligible Costs

Sections 2, 16 and 18 of the Circular identify alcoholic beverages, fines and penalties and goods or services for personal use as ineligible costs. During our review period, Teen's incurred $2,620 in ineligible costs. Specifically, the Agency paid $1,450 to the CDSS Community Care Licensing for failure to correct violations, $785 in bank overdrafts and non-sufficient fund fees, $229 for finance charges and late fees, and $156 for alcoholic beverages and cigarettes.

Recommendation

1. DCFS management resolve the $26,244 in identified unsupported/ inadequately supported and ineligible expenditures and, if appropriate, collect any disallowed amounts.

In order to appropriately account for foster family agency and group home funds, and administer these programs in compliance with the terms of their agreements with the County, Teen's should implement the following recommendations:

Recommendations

Teen's management:

2. Maintain adequate supporting documentation for all FFA expenditures, including original itemized invoices and receipts.

3. Ensure that foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA.

OVERPAYMENTS BY DCFS

While reviewing Teen's FFA general ledger, we noted that the Agency established a payable account entitled "LA County Overpayments." Teen's identified $10,889 in overpayments from DCFS which must be repaid. We also found $4,215 in overpayments to Teen's GH program that must also be repaid to DCFS.

Subsequent to our fieldwork, the Agency informed DCFS of the total overpayments and is currently repaying DCFS. However, it should be noted that some of these overpayments date back to 1998. Teen's management should ensure that any future payment discrepancies are immediately reported to DCFS.

Recommendation

4. **Teen's management ensure that any future payment discrepancies are immediately reported to DCFS.**

CDSS and IRS Liabilities

The Agency has substantial liabilities with CDSS and the IRS that could adversely impact the quality of care and services provided to children.

CDSS Liabilities

During our review, we found that the Agency owes CDSS for group home overpayments dating back to a program audit conducted by the CDSS Foster Care Audits Branch for fiscal year 1994-95. CDSS' Final Audit Report on June 10, 1996 assessed the overpayment at $85,949. The Agency failed to take any action to resolve this overpayment. In January 2001 CDSS began a mandatory reduction in the amount paid to the Agency in an attempt to liquidate this debt. By the beginning of our audit period (January 1, 2002), the amount of the debt had increased to $93,923. In January 2002, the Agency began to repay CDSS $560 per month, in addition to the mandatory reduction which had increased to $1,431 per month. We contacted CDSS who provided us an Accounts Receivable Ledger detailing the repayments and the balance owed by the Agency. The Agency should have acted more timely to begin repaying the overpayments. By delaying the repayment to the State, the Agency accrued significant additional interest. In addition, as of the end of our review period, December 31, 2002, the Agency owed $75,187 to CDSS (per CDSS' records). However, the Agency's general ledger recorded a liability balance of only $60,311.

IRS Liabilities

Our review also disclosed substantial amounts of liabilities owed by the Agency to the IRS. Section 2.6 of the A-C Handbook states that a contractor will ensure compliance with all applicable federal and state requirements for withholding payroll taxes (e.g., FIT, FICA, FUTA, SIT, SUI, etc.), reporting, filing (941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits. As of August 12, 2003, the Agency owed the IRS a total of $83,334 for delinquent payroll taxes (Form 941) in 1996, 1997, 1998, 1999 and 2002, and for not timely filing Non-Profit Organization Returns (Form 990) in 1995 and 2001. Included in this amount are $16,152 in penalties (Intentional Disregard for Paying Taxes and Daily Delinquency Penalties) and $21,032 in interest assessed by the IRS.

The Agency's Executive Director informed us that she has hired a CPA firm to assist in preparing an "Offer in Compromise" to settle the delinquent taxes with the IRS. We noticed that the Agency did not record this liability on their financial statements. We recommend that the Agency record this liability on their books to disclose the Agency's actual financial condition. We also recommend that the Agency not use foster care funds to pay for the interest and penalties assessed by the IRS since these types of costs are ineligible according to the Circular.

The final disposition of these liabilities could jeopardize Teen's financial viability and result in poor care and services to the children. The fact that the liabilities exist is an indication that Teen's management has not appropriately handled its financial affairs. DCFS should consider no longer contracting with this Agency because of the nature of these financial issues. If DCFS decides to continue contracting with this Agency, it should implement an active, timely, and detailed monitoring program.

Recommendations

DCFS management:

5. **Consider no longer contracting with this Agency. If DCFS continues to contract with this Agency, implement an active, timely and detailed monitoring program.**

6. **Ensure that no foster care funds are used in the payment of interest and penalties assessed by the IRS.**

Teen's management:

7. **Respond to CDSS and IRS assessments in a timely manner.**

8. **Reconcile the amount owed to CDSS and ensure the correct amount is recorded in the Agency's general ledger.**

9. **Record the IRS liability on the Agency's general ledger to reflect the actual financial condition of the Agency.**

10. **Do not use foster care funds to pay interest and penalties assessed by the IRS.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Payroll/Personnel Controls

Teen's payroll and personnel procedures are not in compliance with the A-C Handbook. We sampled the personnel files of 12 employees and noted that six (50%) of the files did not have documentation to support the employee's current salary rate.

Recommendation

11. Teen's management ensure that employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.